Sunderland City Council

Integrated Assurance Framework – Final report

Sunderland
City Council

April 2013

pwc

Contents

Distribution List	
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1. Introduction

Background

As part of the Internal Audit / Risk and Assurance team partnership between PricewaterhouseCoopers (PwC) and Sunderland City Council (the Council), the Council asked us to carry out a review of the Integrated Assurance Framework (IAF).

The assurance framework is supported by the Corporate Assurance Map which sets out assurances gained by the Council over the strategic and corporate risk areas. The assurance is documented using a three lines of defence model.

The current assurance map is monitored by the Corporate Assurance Group, with quarterly updates being provided to each Executive Director and the Audit and Governance Committee.

An integrated assurance framework is a very innovative best practice approach, and the Council is one of the early adopters of this within the local authority sector. It has made great efforts to implement this new process and to gain a better understanding of where assurance exists within the Council and what additional measures are required or where efficiencies may be obtained. This report sets out some areas where this could be further refined or enhanced but the progress and implementation of this framework operational within the Council.

Summary of our findings

The following points of good practice were raised during the review:

- The Council seeks to drive continuous improvement and part of this is the development of the integrated assurance framework;

- The Council has a good framework in place to obtain assurances and has utilised good practice to develop this;

- There is a clear understanding by the Head of Corporate Assurance and Procurement and Audit and Risk and Assurance Manager of the purpose of the integrated assurance framework and how it operates. The Internal Audit and Risk and Assurance teams are embedded into the process and this is a fundamental part of how the Council gains its assurance;

- There is an assurance map in place which sets out the three lines of defence which is frequently reported within the Council and to the Audit and Governance Committee;

- The Internal Audit and Risk and Assurance team provides support for directorates to manage risks and drive improvements or undertake additional work as required. The feedback from these directorates on this role has been very positive;

- For each of the areas of assurance there is detail behind how this is gained and evidence is obtained; and

- The Head of Corporate Assurance and Procurement takes an overall view of the assurances given to the Council to ensure that they are subject to challenge and present a fair assessment.

The following areas for further development were raised during our work:

- Documenting a Council wide definition of assurance;

- Further expanding the assurance map to show what assurance the Council needs;

- Further refinement of the three defence lines areas and what they include;

- The level of assurance gained from the work of internal audit;

- The role of performance management in the assurance process;

- The assurance provided from the second line of defence areas; and

- The role of the business continuity function and the wider assurance team.

Culture

The Council has made great progress in implementing an integrated assurance process. The language is much more familiar across the Council and many contribute to the map and the ongoing provision of assurance to the Council. The Audit and Governance Committee is now familiar with the map and it is reported to members for discussion and review.

Across the three lines of defence:
- The first line of defence requires the most development and needs those responsible to make the appropriate assessments against the core functions of their roles;
- The second line of defence is more established but there are some inconsistencies in how assurances are provided and additional input by these owners will aid the process to further develop; and
- The third line of defence is the most developed. The Internal Audit and Risk and Assurance team clearly understands the process and has developed a framework to provide assurance together with the other sources of information in this area.

Support has been provided to the directorates but additional training or guidance may be required with some of the first line of defence owners.

Scope of the review

This is included at Appendix 1.

This is a final report which supersedes the draft report. Our definitive opinions and conclusions are those contained in this final report.

2. Recommendations

1 – Assurance
The Council has made significant progress in developing an integrated assurance framework and involving key areas and functions of the Council in the assurance process. There is currently no one documented definition of assurance, overall responsibilities and what it means for the Council.
Risks
The definition of assurance is unclear and is misunderstood / misinterpreted by users.

Action plan		
Recommendations		
To further develop the framework and supporting policies, the Council should document its definition of assurance, what is being provided through the integrated assurance map and responsibilities should be clearly outlined.		
Agreed action		**Responsible person / title:**
A document setting out the definition of assurance, roles and responsibilities of those involved and how the assurance is provided will be developed for presentation to the Audit and Governance Committee.		Audit, Risk and Assurance Manager
		Target date:
		28/06/2013

2 – Risks and Ratings
The assurance map details both the strategic and corporate risk areas of the Council. It does not yet show how much assurance the Council needs in those areas or if sufficient assurance is being obtained. This may be particularly relevant if the Council has any key risk areas which it needs to monitor more closely.

Risks
There is the possibility that too much or too little assurance is gained over some risk areas leading to inefficiencies, gaps in assurance or potential duplication.

Action plan
Recommendations
The assurance map in place for the Council should, for each strategic and corporate risk area, detail the following: • How much assurance the Council requires (for example high, medium or low assurance required); and • What the current assurance provision is (for example if more, less or the required amount is sufficient). This will allow internal audit work and other assurance focus to be targeted where it is needed, this can be particularly important during periods of significant change / transformation and when work has to be prioritised.

Agreed action	Responsible person / title:
The assurance map will be developed as set out above.	Audit, Risk and Assurance Manager
	Target date:
	28/06/2013

3 – Defence lines
The assurance map currently shows the risks facing the Council and the separate assurances that are gained over each risk split between the following areas: • First line of defence - Management Assurance; • Second line of defence - Other Internal Assurance Activity; • Second line of defence - Risk and Assurance; • Third line of defence - Internal Audit; and • Third line of defence - External Assurance.   As the map is being developed it is recognised that the Council is embedding this process and is looking to follow best practice in further developing and integrating the process. Therefore the map can be further extended to obtain this coverage.
Risks
Not all assurances in place over a given risk are documented and captured, leading to too little or too much assurance being gained. This could lead to a misrepresentation of the data being presented and failure to make decisions based on sound information.

Action plan
Recommendations
The assurance map could be further developed to expand and clarify the following lines of defence: • First line of defence – Management control and reporting; • Second line of defence – Functional oversight and governance; and • Third line of defence – Independent review. Additional areas of assurance that are currently not shown on the assurance map, should be considered, these may include but not be limited to: • First line of defence – providing more assessment on key roles of management for example key performance indicators, contract management, quality processes, system controls, procedures, operational risk management, partnership working; • Second line of defence – including the role of the other steering / project groups; and • Third line of defence – reports from other external bodies e.g. OFSTED, other inspections for example by the Health and Safety Executive.

Agreed action	**Responsible person / title:**
The Assurance Map will be updated to clarify the roles of each line of defence and additional sources of assurance will be considered as set out above.	Audit, Risk and Assurance manager
	Target date:
	28/06/2013

4 – Internal Audit
The Council's assurance map currently details assurance that is gained from the Council's internal audit function. This is shown on the assurance map, if a review has been competed in relation to a specific risk of the Council. In the appendix to the map it sets out what level of assurance has been gained from the internal audit reviews conducted and when the review was completed, however this does not include all the reviews undertaken over the period considered or how it leads to the assessment of the overall assurance rating. There may be a risk that the scope of the audit did not fully cover the strategic risk.

Risks
It is not clear to the users of the assurance map what level of assurance is gained from the internal audit function and when the coverage was obtained or if it provides significant coverage of the strategic risk area.

Action plan
Recommendations
The detail to support the assurance map should show how the level of assurance is gained from the internal audit reviews to ensure that the reader is fully aware of how the conclusion has been made. If the review does not cover the area in full this should be clear from the assurance provided. As the Council further develops the assurance map it should also do this for other third line of defence areas.

Agreed action	**Responsible person / title:**
The audits undertaken during the period from which the assurance is being taken will be listed within the Update Reports to the Audit and Governance Committee. This will also give a brief summary of the scope of the audits so that the level of coverage is clear.	Audit, Risk and Assurance Manager **Target date:** 28/06/2013

5 – Performance Management
There is a performance management framework in place within the Council; however this is not linked to the integrated assurance framework so it is not clear if there are any performance issues in place over the areas in which the assurance map covers.

Risks
There is a lack of oversight over the key performance issues facing the Council and what performance monitoring is conducted.

Action plan

Recommendations
The performance management of the Council should link to the assurance map. This should both be in the design of the performance management process (in the first line of defence assessment) and also in the assessment of performance either by the line managers or by the second line of defence scrutiny / review groups.   It should be clear from the assurance map if there are performance issues or if assurance can be given that areas are performing well. This is particularly important for strategic objectives and tracking performance of projects / programmes such as those associated with the transformation agenda.

Agreed action	Responsible person / title:
The extent to which the corporate performance management arrangements can be reflected through the Assurance Map will be considered in consultation with the Head of Strategy and Performance.	Head of Corporate Assurance and Procurement
	Target date:
	01/07/2013

6 – Second line of defence
The second lines of defence in the corporate assurance map provide an assessment of how these areas contribute to the assurance provided to the Council and its members. There are six key areas covered within the map. These are • Legal Services; • Financial Resources; • Transformation, Programmes and Projects; • Strategy, Policy and Performance; • HR &OD; and • Business continuity. From meeting with each of these areas it is clear that some provide assurance over the design and operation of the system, whereas others support only the design of the process and do not provide assurance that it is operating effectively or complying with all legislation. For example, the health and safety function provides assurance but this is based on advice, policies and some inspections rather than a confirmation that the Council is compliant with all health and safety requirements. HR also provides advice and support for managers but does not oversee compliance with all legislative requirements across the Council. The transformation assessment is not based on the success or effectiveness of the process and the strategy, policy and performance is not based on the operating effectiveness of this process across the Council. However, for legal, finance and business continuity it was noted that the assurance owners are taking responsibility and making an assessment on both how the processes and systems are designed and how they are operating across the Council.

Risks
The assurance map may be misunderstood by users as providing comfort on compliance across all these areas, which may be misleading.

Action plan

Recommendations
Assurance owners should be clear as to what they are contributing to the map and performing additional checks, inspections or consulting with other areas of the Council to provide an informed, evidenced based review. One of the key functions of an assurance map is to show legislative compliance across core areas and coverage against key risks, to do this the Council should have an informed view of operational practices. The assurance map should show what is actually being provided and have the appropriate limitations if information is not being obtained.

Agreed action	Responsible person / title:
A review will be undertaken to obtain clarity on the assurance actually being provided by the second line of defence. The Assurance Map will be amended to show clearly the scope of assurance being provided.	Audit, Risk and Assurance Manager
	Target date:
	30/07/2013

7 – Business Continuity Planning
The Council currently has a business continuity officer who is not based in the Internal Audit or Risk and Assurance team. There is assurance provided from this officer, however, this would be better utilised if it was included in this team and her skills could also be used more widely to meet the Council's assurance objectives.

Risks
The business continuity officer is not used as effectively as possible to deliver the Council's assurance agenda.

Action plan
Recommendations
Management should consider moving the business continuity officer into the Internal Audit / Risk and Assurance team.

This would provide further opportunities for the development of this role and for the skill set of this individual to be used more widely to support the integrated assurance framework. |

Agreed action	Responsible person / title:
The role of the Business Continuity Officer will be reviewed in line with the assurance that could be obtained. Decisions will then be made as to the most appropriate service for the role to sit.	Head of Corporate Assurance and Procurement
	Target date:
	30/07/2013

Appendix 1. Scope of the review

We will review your IAF in a five step approach:

1. Understand your approach

We will meet with you and the Audit, Risk and Assurance Manager to discuss the IAF. Following this we will spend a day with the Manager will enable us to understand your framework in more detail and the work undertaken to date.

2. Project planning

We will discuss this in more detail at our next meeting and confirm:

- Staff and budget;
- Timescales for planning, progress updates, fieldwork and reporting;
- Approach to the review, scope and milestones;
- Coverage within the Council and arranging meetings; and
- Reporting format.

3. Review the 3 lines of defence

We will review each of the 3 lines to assess the process in place and work undertaken to date. This will involve interviews with 2nd line of defence owners.

4. Assess culture

During our review we will assess the current appetite to the IAF and if there are any barriers which need to be addressed, for example through training, guidance, ownership, accountability and consistency advice.

5. Debrief and report

Provide a draft report, followed by discussion with the Head of Corporate Assurance and Procurement and the Audit, Risk and Assurance Manager, provide a final report to reflect any comments.

Appendix 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the integrated assurance framework, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the integrated assurance framework is for the period April 2012 to February 2013. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

Our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.